

January 30, 2006

Dear Friends:

The following document provides a summary of key provisions of the Governor's proposed budget. As additional details become available, this document will be updated.

This is the best starting point for a budget in the past three years. The Governor is embracing Democratic priorities by increasing funding for education, transportation, and children's health care. Assembly Democrats have been steadfast in fighting for these issues – not just in an election year.

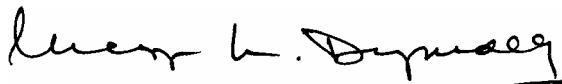
The Governor has increased health care funding for children. He has bolstered state support for adoption services, adult and child protective services, and foster care. However, what's puzzling is that at a time when state revenues are at a record high, the poorest Californians are taking the hardest hit in the Governor's proposed budget.

All of the Governor's proposed cuts are to the poor, blind, disabled, elderly, and people on welfare. For example, those on CalWORKS will once again not receive a cost-of-living increase next year. The Governor also denies California's low-income citizens on SSI/SSP the federal cost-of-living increase they deserve. This is unacceptable.

Furthermore, cutting programs such as child care and job training that help move needy Californians off of welfare and into jobs is counter-productive. The Governor should restore those funds. If he doesn't, Assembly Democrats intend to do so.

I hope you find this information helpful.

Sincerely,

A handwritten signature in black ink, appearing to read "Mervyn M. Dymally". The signature is fluid and cursive, with a prominent "M" and "D".

Mervyn M. Dymally  
Chair, Budget Sub Committee #2

**Summary of Key Provisions in**

**Governor's Proposed Budget**

**2006-2007**

**Compliments of Assemblymember Dymally**

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# Summary of Key Provisions in Governor's Proposed Budget 2006-2007

## Introduction

The Governor's proposed budget contains \$98.6 billion in available General Fund resources, which includes the \$7 billion surplus from the 2005 – 2006 fiscal year and \$91.6 billion in resources to be generated during the new fiscal year. The Governor's proposed 2006-07 budget expenditure represents an 8 percent increase over 2005-06. This increase is not reflected in every category of government expenditure. However, there are significant increases in such areas as Business, Transportation and Housing, which shows a 58.6 percent and reflects the Governor's desire to "Build It" as it pertains to improving transportation and infrastructure. See table below.

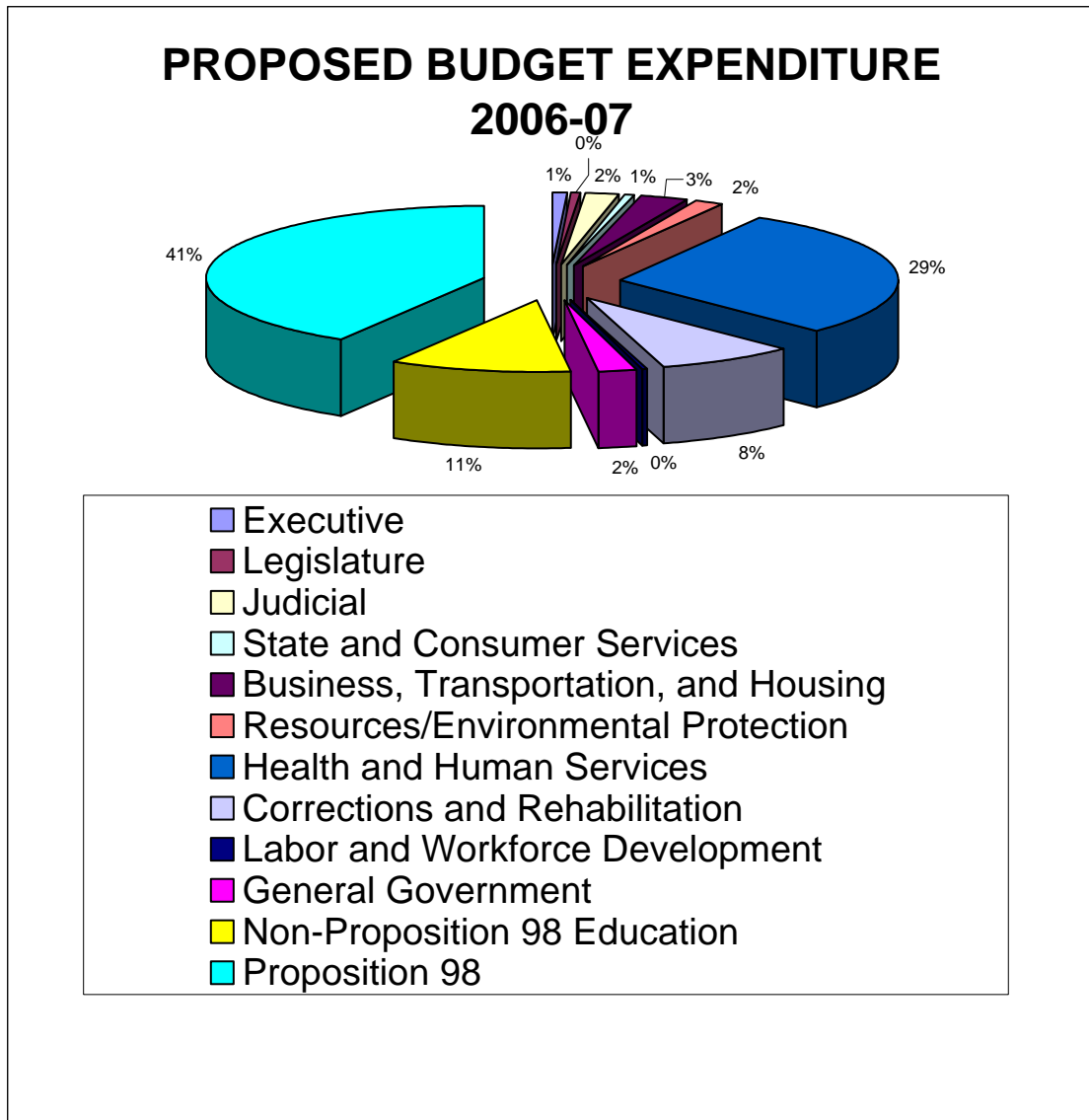
<b><u>REVENUES</u></b>	<b>2005-06</b>	<b>2006-07</b>	<b>Difference</b>
Revenues and Transfers	\$87,691.4	\$91,544.9	4.4%
<b><u>EXPENDITURES</u></b>			
<b>NON-PROPOSITION 98:</b>			
Executive	\$928.1	\$918.5	-1.0%
Legislature	313.8	323.6	3.1%
Judicial	1,905.5	2,140.3	12.3%
State and Consumer Services	577.7	539.8	-6.6%
Business, Transportation, and Housing	1,714.2	2,718.6	58.6%
Resources/Environmental Protection	1,466.2	1,601.2	9.2%
Health and Human Services	27,236.8	28,449.5	4.5%
Corrections and Rehabilitation	7,612.2	8,038.4	5.6%
Labor and Workforce Development	89.0	92.2	3.6%
General Government	2,622.4	2,211.1	-15.7%
Non-Proposition 98 Education	9,516.9	10,413.1	9.4%
<b>Proposition 98</b>	<b>\$36,310.9</b>	<b>\$40,455.5</b>	<b>11.4%</b>
<b>TOTAL - ALL EXPENDITURES</b>	<b>\$90,293.7</b>	<b>\$97,901.8</b>	<b>8.4%</b>

The budget proposes \$97.9 billion in General Fund expenditures, and a \$153 million reserve (the budget also contains a \$460 million reserve in the Budget Stabilization Account). Overall, General Fund revenues are up by \$9.3 billion than what was previously projected when the current year's budget was passed in July. This includes estimated increases of \$2.3 billion for the 2004-05 budget year, \$3.2 billion for the 2005-06 budget year, and \$3.7 billion for the 2006-07 budget year.

The Governor also proposes to increase General Fund expenditures by \$7.6 billion, the Department of Finance asserts \$4.1 billion of this is required under current law, while

\$3.5 billion results from new policy decisions, such as increasing Proposition 98 funding by \$1.7 billion and repaying a portion of a Proposition 42 loan one year early.

See Chart below for a break-down of proposed expenditure.



# SPENDING BY MAJOR PROGRAM AREAS

## K-12 EDUCATION

***Budget Fully Funds Growth, COLAs, and Several Program Expansions.*** The Governor's budget proposes \$3.7 billion (8.4 percent increase) in new K-12 expenditures in 2006-07.

- ***COLAs and Growth-\$2.3 Billion.*** The proposal fully funds both statutory and discretionary growth and COLAs. Specifically, the budget provides \$2.3 billion for a 5.18 percent COLA which includes \$1.7 billion for revenue limits (general purpose funds) and \$594 million for categorical programs and \$143 million for a 0.21 percent attendance growth. Other base adjustments include a decrease of \$136 million for unemployment insurance and Public Employees' Retirement System costs, and \$33.3 million for other adjustments.
- ***Down payment on promise.*** Includes a funding level that is \$1.673 billion above the Proposition 98 minimum funding level required by the constitution for K-12 education and community colleges, under the Governor's calculation. This funding is ongoing and helps repay part of the debt ("maintenance factor") the state owes K-14 education, which was incurred during the 2004-05 fiscal year, when the state suspended the minimum funding requirement under the constitution.
- ***Proposition 49 (After School Programs)-\$426 Million.*** Proposition 49 requires that the state appropriate an additional \$428 million for after school programs if state spending reaches a specified threshold, or "trigger." The spending level in the Governor's budget triggers the Proposition 49 spending. In addition to the \$426 million in Proposition 98 funding, the budget proposes around \$2 million to California Department of Education for administration and evaluation.
- ***Restoration of Foregone COLAs-\$206 Million.*** To balance the 2003-04 budget the state reduced or "deficited" revenue limits by not providing a COLA. Over the last two years, the state has been restoring those funds. The proposed \$206 million in funding would restore most of the remainder, leaving approximately \$100 million outstanding. This type of fund is unrestricted.
- ***Revenue Limit Equalization-\$200 Million.*** The budget provides \$200 million to reduce historical inequities in general purpose spending. According to the administration, these funds would be allocated using the current statutory equalization methodology.
- ***State Mandates-\$133 Million Ongoing and \$152 Million One Time.*** The budget provides \$133 million to reimburse schools for a significant portion of the ongoing costs of mandates. In addition, the budget provides \$152 million in one-

time funding-\$133 million from prior-year settle-up funds (as mentioned above) and \$19 million from the Proposition 98 reversion account.

- *Prior- and Current-Year Declining Enrollment Adjustments.* The administration updated its estimate of the statutory declining enrollment formula. The budget proposal provides an additional \$117 million in 2004-05 and \$128 million in 2005-06 to fully fund these costs.
- *New and expanded Proposals-\$438 Million.* The Governor proposes to expand or create the following programs:
  - Provides \$100 million for a new teacher and principal quality initiative, to help the lowest-performing 30% of schools attract and retain credentialed teachers and principals in hard-to-staff areas.
  - Provides \$65 million for a new proposal to add a third year to an existing two-year beginning teacher support and assistance program. The third year would be required for teachers in the lowest-performing 30% of schools.
  - Provides \$100 million for a new block grant program to revitalize art and music in elementary and middle schools, at approximately \$20 per pupil.
  - Provides \$60 million for a new block grant to improve physical education in elementary and middle schools.
  - Provides \$25 million for incentive grants to elementary and middle schools to hire more credentialed physical education teachers.
  - Increases funding for career technical programs by \$30 million. These programs are intended to improve linkages between community colleges and K-12 career technical programs. This augmentation would mean a total of \$50 million for this new program, which was initiated last year with a \$20 million appropriation.
  - Provides \$25 million for one-time digital classroom block grants of approximately \$3000 per classroom, to improve education technology.
  - Increases funding to help students pass the California High School Exit Exam by \$20 million. The class of 2006 is the first graduating class that will have to pass the exam to obtain a high school diploma. This augmentation would mean a total of \$40 million for this new program, which was initiated last year with a \$20 million appropriation.
  - Provides \$18.2 million to continue last year's program to provide canned and fresh fruits and vegetables in children's breakfasts. Last year's budget provided this same amount with one-time funds.

- Provides \$82 million in federal one-time funds to improve student performance at federally-identified program improvement schools. Also provides a \$4.5 million Proposition 98 increase to the High Priority Schools Grant program, to improve low-performing schools.
- Provides \$106.6 million for school facility emergency repairs, pursuant to the Williams lawsuit settlement of two years ago.
- Increases the charter school categorical block grant by \$36 million, pursuant to last year's legislation to gradually increase funding for this block grant.
- Continues last year's \$1.5 million augmentation to higher education programs to train more science and math teachers.

## **HIGHER EDUCATION**

### **University of California**

- Includes a 3 percent General Fund increase of \$80.5 million for basic budget support.
- Provides \$52 million (based on revised marginal cost rate) for a 2.5 percent enrollment growth to fund an additional 5,149 full time equivalent (FTE) students.
- Provides \$75 million to buy out the Compact proposed and Board of Regents approved student fee increases for undergraduates (8 percent), graduates (10 percent) and professional school students (5 percent for most programs). All fees will remain at current-year levels.
- Modifies the student fee revenue set-aside for financial aid from 25 percent to 30 percent for undergraduates and from 50 percent to 45 percent for graduate students. This is equivalent to an average of 33 percent return-to-aid.
- Continues the one-time \$14 million appropriation for UC Merced for start-up costs including support for faculty salaries and recruitment, instructional technology, library materials, student services and operational support.
- Includes \$1.7 million to continue funding for the expansion of entry-level master's nursing programs.
- Provides \$180,000 for a new cohort of 12 students for the PRIME-LC program, which prepares medical students to serve in underserved areas of the state.



- Includes an additional \$375,000 to complete the system-wide implementation of the Math and Science initiative.
- Eliminates \$17.3 million for academic preparation. The 2005-06 Budget Act provided \$29.3 million for academic preparation programs. Of this amount, \$17.3 million were General Fund and \$12 million were UC funds.
- Eliminates \$3.8 million in funding for labor research at the UC Berkeley and UCLA campuses.
- Includes a 3 percent General Fund increase of \$75.7 million for basic budget support.

## **California State University**

- Provides \$57.7 million (based on revised marginal cost rate) for a 2.5 percent enrollment growth to fund an additional 8,490 FTE students.
- Provides \$54.4 million to buy out the Compact proposed and Board of Trustees approved student fee increases for undergraduates and teacher credential program students (8 percent) and graduate students (10 percent). All fees will remain at current-year levels.
- Increases the student fee revenue set-aside for financial aid from 25 percent to 33 percent.
- Includes \$1.7 million to continue funding for the expansion of entry-level master's nursing programs.
- Includes an additional \$1.1 million to complete the system-wide implementation of the Math and Science Initiative.
- Increases the Capital Fellows Program by \$84,000 to reflect the 3 percent Compact funding increase.
- Eliminates \$7 million for academic preparation and student services programs. The 2005-06 Budget Act provided \$52 million in General Fund for academic preparation programs. Of this amount, \$7 million was General Fund and \$45 million was CSU funds.

## California Community Colleges

The Governor's budget proposes \$606 million in new Proposition 98 expenditures for community colleges in 2006-07. This reflects an 11.6 percent increase over the revised current-year estimate. Major new expenditures include:

- *COLAs and Growth-\$434 Million.* The proposal provides funding for COLAs at the same rate (5.18 percent) as K-12's statutory rate. It also funds an assumed 3 percent growth in enrollment. This is significantly above the statutory minimum guideline of adult population growth, which is estimated to be 1.74 percent.
- *Equalization-\$130 Million.* The Governor proposes an additional \$130 million for equalization, which is estimated to achieve the statutory target for equalization.
- *Workforce Development-\$30 Million.* The Governor proposes an additional \$30 million to expand upon his current-year initiative on economic development and career technical education. This funding builds upon an existing base of \$20 million, for a total of \$50 million in 2006-07.

## California Student Aid Commission

- Increases the Cal Grant program by \$39.5 million over the *2005-06 Budget Act*.
- Includes \$6.8 million for the increased costs of the Assumption Program of Loans for Education (APLE).
- Provides authorization for 8,000 APLE awards in 2006-07. Of this amount, a total of 600 awards are authorized for participants in the Governor's Science and Math Teacher Initiative.

## TRANSPORTATION

- Transfers \$1.4 billion in gasoline sales tax revenue to transportation as required by Proposition 42. Proposition 42, approved by voters in 2002, requires that revenue from the sales tax on gasoline that previously went to the General Fund be transferred into the Transportation Investment Fund for transportation purposes. Of the \$1.4 billion, \$678 million would be for the Traffic Congestion Relief Program, \$582 million for the State Transportation Improvement Program, and \$146 million would go to the Public Transportation Account (PTA). Consistent with current law, none of the Proposition 42 funds in 2006-07 would be allocated to local governments for streets and road purposes.
- Proposes to amend Proposition 42 to prohibit any suspension after 2006-07. This would ensure future transfer of gasoline sales tax revenues to transportation without uncertainty. Proposition 42 allows the transfer to be suspended in years

in which the transfer would have a significant negative fiscal impact on the General Fund. Since its adoption, Proposition 42 has been suspended twice, in 2003-04 (partial suspension) and 2004-05 (full suspension). Current law requires that the suspended amounts be repaid with interest in later years.

- Proposes to repay a portion-\$920 million (principal and interest)-of that loan in 2006-07, with the balance (estimated at \$430 million) to be repaid in 2007-08. The full suspension of the Proposition 42 transfer in 2004-05 totaled about \$1.3 billion and must be repaid with interest by 2007-08. The prepayment would enable a substantial amount of transportation capital projects to be funded sooner than expected.
- Projects that spillover gasoline sales tax revenue in 2006-07 will not exceed \$325 million. Accordingly, the budget proposes no spillover revenue to the PTA in the budget year. State law requires certain spillover gasoline sales tax revenue to be deposited in the PTA for mainly rail and transit purposes. Spillover revenues have been retained in the General Fund in the current and past couple of years due to the state's fiscal condition. For 2006-07, state law specifies that the first \$200 million of any spillover revenue will be retained in the General Fund, and the next \$125 million be applied to the San Francisco-Oakland Bay Bridge seismic retrofit. Any remaining spillover revenue (in excess of \$325 million) would then be deposited in the PTA.

## **CORRECTIONS**

- The Governor's budget for the newly reorganized California Department of Corrections and Rehabilitation (CDCR) includes several augmentations, the largest being \$161 million for employee compensation, \$132 million to fund a projected increase in the inmate population, and \$115 million to meet the conditions of various court settlement agreements. Other notable increases are proposed to expand the correctional officer academy (\$55 million) and inmate and parolee programs (\$23 million). The budget requests approximately 2,300 new positions for CDCR in 2006-07. The budget assumes that the state will receive increased federal reimbursements for state correctional services provided to undocumented felons.
- The budget proposes \$100 million for the Citizen's Option for Public Safety program and \$100 million for Juvenile Justice Crime Prevention Act grants. It also proposes to continue \$201 million General Fund for county juvenile probation grants formerly funded by federal TANF funds.

## **JUDICIAL BRANCH**

- The budget proposes \$123 million for growth in judicial branch funding based on the annual change in the state appropriations limit, which includes support for the Supreme Court and Courts of Appeal, as well as for the trial courts. The budget also proposes to phase-in 150 new judgeships over the next three years, beginning in April 2007 (\$6 million). Other notable increases are proposed for trial court security (\$19 million) and to upgrade court information technology systems (\$15 million). Finally, the budget proposes \$30 million General Fund to repay a loan of the same amount from the State Court Facilities Construction Fund.

## **HEALTH**

- Proposes a series of actions in the Medi-Cal and Healthy Families Program to enroll more children in health coverage and to increase the number in such programs who renew their enrollment each year. The proposals, with identified costs of \$38 million from the General Fund, do not change eligibility, but focus on increasing the number of children in coverage who are already eligible for benefits under current law.
- Implements legislation enacted last year (Chapter 560 [SB 1100, Perata]), in response to a state-federal agreement on the restructuring of Medi-Cal financing for California hospitals. The budget plan includes various significant shifts in special funds and General Fund support among private and public hospitals relating to Chapter 560. The administration estimates the increase in the available level of federal funding for hospitals over 2005-06 and 2006-07 to be about \$1 billion. Among the various shifts in funding, the budget proposes to use about \$90 million in federal funds from the newly created “safety net care pool” to reduce the General Fund cost for four state programs to help the uninsured: (1) California Children’s Services, (2) the Genetically Handicapped Persons Program, (3) the non-Medi-Cal part of the Breast and Cervical Cancer Treatment Program, and (4) long-term care services for Medically Indigent Adults.
- As part of a larger package of changes to licensing and certification of various health and social services programs, the Governor is proposing to add about 134 new positions to the DHS licensing and certification division, the state agency that licenses nursing homes and other long-term care facilities. The administration is also proposing to collect some fees every other year instead of each year, and would deposit the fee revenues into a new special fund instead of the General Fund.
- The budget plan reflects the implementation of Proposition 63, an expansion of mental health community services funded with a state tax surcharge on high-

income taxpayers. More than \$650 million in Proposition 63 special funds are allocated for local assistance in 2006-07.

- The Department of Mental Health (DMH) budget reflects a technical shift of about \$340 million in General Fund resources from the DHS Medi-Cal budget to DMH for the ongoing costs of certain mental health services for children enrolled in Medi-Cal.
- The budget plan states the Governor's continued intent to develop a plan to eliminate the AB 3632 (W. Brown) state mandate for mental health services for children enrolled in special education. It sets aside \$150 million in the K-12 education and Commission on State Mandates budgets for this purpose.
- The administration is requesting to add 453 positions to the state hospital system at a cost of almost \$38 million to the General Fund to respond to federal civil-rights investigations that have found deficiencies in the state hospital system.
- Proposes to extend on a one-time basis in 2006-07 the \$120 million in General Fund support currently being provided for implementation of Proposition 36, a measure approved by voters in November 2000 to divert certain drug offenders from jail and prison to community drug treatment programs. The administration indicates its support of the continued funding is conditional upon the legislative enactment of changes to Proposition 36, including greater authority for judges to impose short jail sentences on offenders who fail to show up for treatment and to impose drug-testing requirements as a condition of probation.
- Spends more than \$47 million in General Fund augmentations for the Department of Health Services (DHS) and the Emergency Medical Services Authority for various actions intended to prevent the state from suffering a flu pandemic or other public health outbreaks and to respond more effectively in the event such a disaster occurs. The health-related items are part of a larger disaster preparedness package proposed by the administration that also includes additional new state resources for the Department of Food and Agriculture and the Offices of Emergency Services and Homeland Security.

## **SOCIAL SERVICES**

Delays providing the federal January 2007 Cost of Living Increase to SSI/SSP recipients until July 2008. This is more than 1 year longer than the three-month delay included in the 2005-06 budget agreement. This reduces General Fund spending by \$48.1 million in 2006-07 and by more than \$185 million in 2007-08. The SSI/SSP program helps low-income seniors and people with disabilities meet basic living expenses.

## **CalWORKS**

- Maintains the suspension of the July 2005 and July 2006 cost of living increase (COLA) for the Calworks grants included in the 2005-06 budget agreement. This reduces general spending by \$122 million in 2005-06 and \$307 million in 2006-07.
- Continues to withhold the October 2003 CalWORKS COLAs for a reduction of \$460 million. In 2004, a superior court judge ruled that the COLA denial violated state law and that the COLA must be paid retroactive to October 1, 2003. However, the Administration appealed the ruling and staying the payments until the appeal is resolved. The Administration believes they will win the appeal and avoid paying the \$460 million in additional grant payments for CalWORK'S families.
- Cuts current year CalWORKS childcare funding by \$115 million. The Administration indicates that fewer CalWORKS recipients have moved into work than was anticipated, and that the funding is not needed. However, county representatives note that the funding is flexible and can be used to provide other services to help move CalWORKS families into the workforce.
- The budget proposes net reductions of \$93 million to CalWORKs county block grant funds for administration, child care, and welfare-to-work services. The budget achieves additional savings in child welfare services by replacing \$32 million in 2005-06 and \$26 million in 2006-07 from the General Fund with federal Temporary Assistance for Needy Families (TANF) block grant funds.

## **Children's Services**

- The budget provides \$19 million from the General Fund for the children's services initiative. Of this amount, about \$11 million is for new initiatives including the adoption of hard-to-place foster children, kinship support services, and transitional housing for foster youth. The remaining \$8 million funds recently enacted legislation (Chapter 640, Statutes of 2005 [AB 1412, Leno]), that helps foster children establish adult/mentor relationships.
- Augments the Transitional Housing for Foster Youth Program, which provides transitional housing placement services to youth who have emancipated from the foster care system and provides supervised independent living arrangements that prepare foster youth to live on their own by \$2.6 million (\$1.4 million General Fund). This proposal will enable additional counties to provide services to former foster youth who are at risk of homelessness, unemployment, or incarceration.

## STATE ADMINISTRATION

The budget proposes no major changes in the area of state employment and retirement. The budget provides funding to pay for the costs associated with existing collective bargaining agreements. Only 3 of the state's 21 employee bargaining units currently have agreements which extend past July 2, 2006 (one of these contracts is pending approval before the Legislature). There are no funds set aside to pay for any potential costs related to new agreements with the other 18 units.

The budget assumes \$258 million in General Fund savings from two approaches:

- *One-Time Savings.* The budget proposes to capture \$200 million in one-time savings through Control Section 4.05. In recent years, these savings have been concentrated in a few departments and tended not to reduce services. Rather, the identified savings have related to items that occur “on the natural”- revised caseload estimates or other unexpected events which reduce the cost of programs.
- *Salaries and Wages Reductions.* In addition, the budget proposes to reduce each department's personnel budget by 1 percent, resulting in savings of \$58 million. The administration expects to achieve these savings primarily by holding positions vacant for longer periods of time.